

General Assistance Funding Remains Steady, While New Initiatives Direct Aid to Distressed Rural Areas

Steady funding characterizes most general assistance programs in 1997, though some programs will benefit temporarily from carryover of large unobligated prior-year funds. The Northwest Economic Adjustment Initiative has plateaued, while other major initiatives are just beginning to have significant impacts.

General assistance supplements or complements single-function programs like housing, infrastructure, and business assistance. It often targets distressed areas or regions and emphasizes planning and technical assistance. General assistance also helps rural communities design and implement comprehensive development strategies, while augmenting their capacity to achieve sustainable development in the future.

The largest rural general assistance programs include the Department of Agriculture's (USDA) extension activities, the Department of Commerce's economic adjustment program, the Department of Housing and Urban Development's (HUD) community development block grant program, Federal Emergency Management Agency's (FEMA) disaster assistance, and the Bureau of Indian Affairs (BIA) assistance programs. Smaller programs tend to focus on a particular region or type of place with special needs. Although some of these programs saw their budgets cut during the last 2 years, they appear to have survived with relatively stable funding in 1997 (references to years in this article refer to fiscal years), and some have been reinvented to operate more effectively.

The most important development in recent years has been the growing importance of new initiatives that provide the Administration with flexibility to direct various types of assistance to distressed areas. These include rural Empowerment Zones and Enterprise Communities (EZ/EC), Rural Economic Area Partnership (REAP) zones, the Northwest Economic Adjustment Initiative, and Community Development Financial Institutions (CDFI).

Main General Assistance Programs See Steady Funding in 1997

HUD's community development block grants (CDBG) provide the largest single source of general assistance funds, totaling \$4.6 billion, of which about 30 percent (\$1.3 billion) goes to States to fund housing, infrastructure, and business development in small cities and rural areas (including some portions of metro areas). CDBG's newly appropriated funds remain constant for this program in 1997 (table 1). However, the money available in 1997 will actually increase because of large unobligated balances carried over from the previous year (including unobligated CDBG disaster assistance). Thus, total CDBG obligations are projected to increase in 1997, from \$4.4 to \$5.3 billion. HUD's section 108 loan guarantee program, funded through the CDBG program, finances large-scale job generation through various projects, including housing, infrastructure, and business development. This program is projected to obligate \$1.4 billion in loan guarantees in 1997, significantly more than in 1996. The section 108 program operates nationally on a first come/first serve basis. Although there is no rural set aside in the program, a portion of each year's loan guarantees are made in rural areas.

Commerce Department's Economic Development Administration (EDA) provides three forms of general assistance important to distressed rural areas: planning, technical, and adjustment assistance. Funding for these programs remains stable in 1997, with \$24 million for planning grants, \$9 million for technical assistance, and \$120 million for adjustment grants (including \$90 million for defense adjustment). Supplemental funding for communities adjusting to natural disasters is expected to increase from \$16 to \$39 million, with most of the increase associated with Hurricanes Fran and Hortense. EDA is also implementing significant reforms, including strategic planning, program evaluation, and streamlined regulations, which should improve program effectiveness.

FEMA's disaster relief grants provide general assistance to places recovering from natural disasters. Figure 1 shows how this program's obligations were allocated among the States in 1995. As in most years, FEMA disaster assistance was most important for

Table 1

Main general assistance programs*Except for FEMA, funding is steady for most general assistance programs*

Program	Funding level by fiscal year ¹			Rural areas most affected by the program
	1996 actual	1997 estimate	Change	
	Billion dollars		Percent	
HUD State/small cities community development block grants	1.31	1.29	-1	Northeast and Midwest States
HUD Section 108 Loan Guarantees ²	.43	1.38	320	Same as above
EDA adjustment assistance, includes economic and defense adjustment, planning and technical assistance	.15	.15	0	Farming and totally rural areas, and in Midwest
FEMA disaster relief	3.61	4.50	25	Earthquake- and flood-prone areas
USDA's extension activities	.43	.43	0	Urbanized, nonadjacent, government, and poverty counties ³
BIA Native American assistance programs	1.65	1.61	-2	Indian reservations

¹For FEMA and HUD Section 108, total new obligations are used for the funding level. Budget authority is used for the other programs.

²The funding given for this program includes both urban and rural areas.

³These are the counties where extension offices are located; extension services provided by these offices actually benefit a wider array of counties.

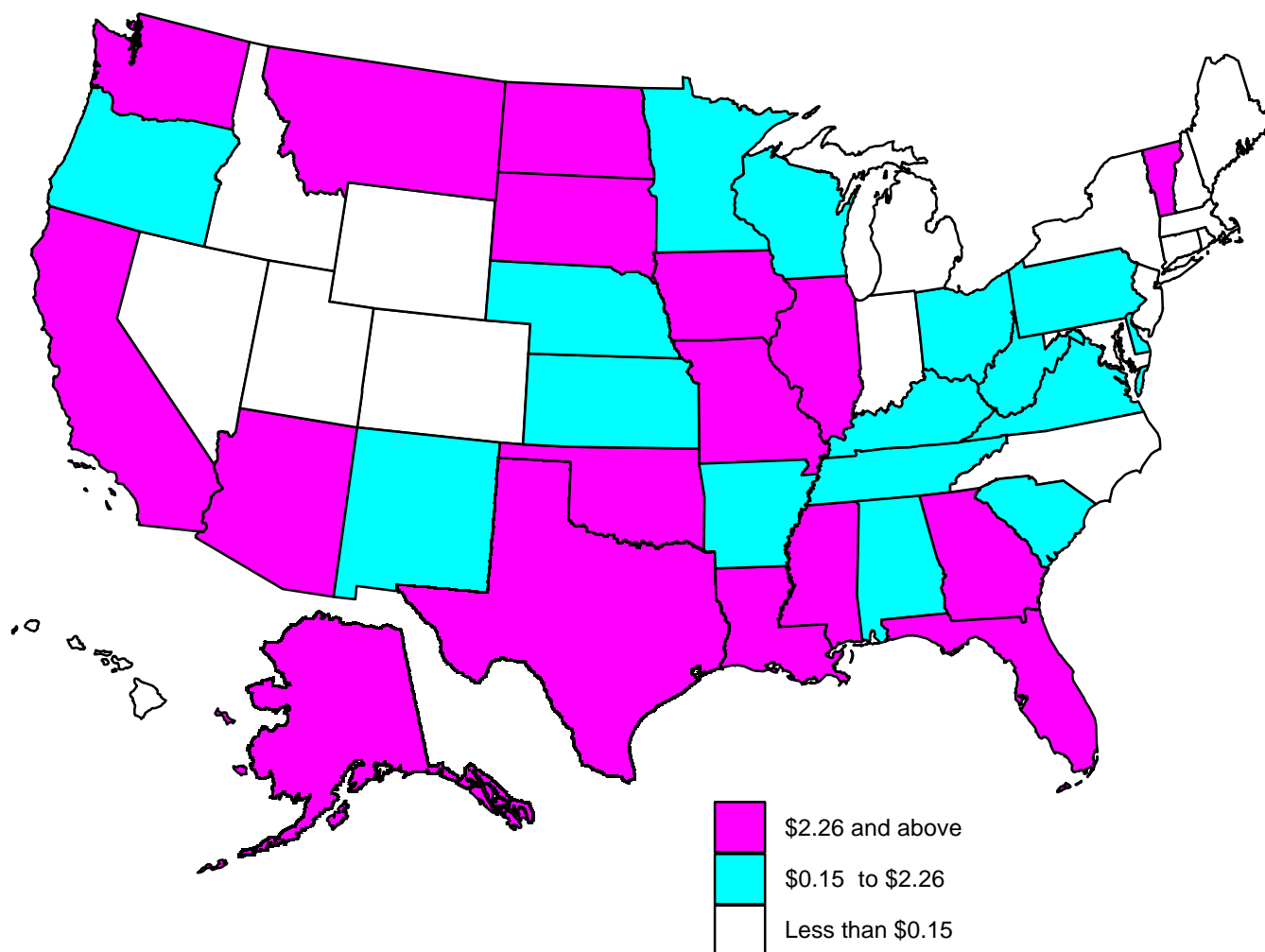
Source: Budget of the United States, fiscal year 1998.

coastal and river States prone to flooding and hurricanes and in the western earthquake areas. More recently, Hurricanes Hortense and Fran have resulted in high FEMA funding levels. In 1996, FEMA's disaster relief required \$3.4 billion. Although additional funding for 1997 is expected to decline to \$1.3 billion, outlays and obligations will rise (reflecting lags in funding and spending).

USDA's extension activities, funded by the Cooperative State Research, Education, and Extension Service, and performed at land-grant universities and county extension offices, provide valuable, research-based technical assistance to many rural communities nationwide that otherwise lack the trained staff to formulate complex development strategies. Extension activities include agricultural as well as nonagricultural development. Federal funding for extension activities remains roughly constant at \$426 million in 1997 (an equivalent amount is provided for research related to these activities).

The Interior Department's Bureau of Indian Affairs (BIA) provides most of the general assistance to Native American tribes. Funding for BIA declines slightly in 1997, from \$1.65 to \$1.61 billion. Native Americans also will receive \$87 million in HUD community development block grants in 1997.

Figure 1

Per capita FEMA disaster assistance, by State, fiscal year 1995*Aid concentrates in coastal States affected by storms and earthquakes, and in States affected by flooding*

Source: Calculated by ERS using Federal Funds data from the Bureau of the Census.

Funding Remains Flat for Most Small General Assistance Programs

Funding for smaller general assistance programs, which tend to focus on specific regions or places experiencing long-term economic challenges, has also been fairly steady. For example, Interior Department payments in lieu of taxes help finance local government services in areas that must forego local taxes on Federal lands within their jurisdiction. Funding for this program, which primarily benefits the western jurisdictions with substantial Federal land holdings, remains unchanged at \$114 million.

The Appalachian Regional Commission's (ARC) area development program will get the same amount in new funding as last year, \$57 million; however, program activity levels will increase markedly. Because of substantial unobligated balances from the previous year, obligations for this program are expected to increase from \$67 million to \$105 million in 1997. Funding for ARC's larger highway program was cut by \$9 million, falling to \$100

million in 1997. However, because of unobligated balances, its obligations are expected to stay roughly constant at about \$141 million.

USDA has several relatively small general assistance programs that are important for rural development. The Forest Service helps distressed timber-dependent and persistent-poverty communities diversify their economies and build development capacity through its economic recovery and rural development programs. Funding for these programs rises from \$14.5 million to \$17 million in 1997. The Resource Conservation and Development (RC&D) program, which provides assistance to over 270 designated RC&D areas to address local environmental, economic, and social needs, maintains steady funding at \$29 million. USDA's rural economic development grants and loans, which cover project feasibility studies and startup costs, incubators, and other rural development activities, will see program funding rise in 1997: grants will rise from \$7 to \$29 million and loans will rise from \$9 to \$12 million. The new rural business opportunity grants, created by the 1996 farm legislation, begin in 1997 with \$1 million; these funds are available for technical assistance, planning, training, and some other development-related activities.

New Initiatives Benefit Distressed Communities

The Empowerment Zone/Enterprise Community (EZ/EC) program empowers high-poverty communities to strategically plan for sustainable development and helps them obtain assistance from various Federal programs in order to implement those plans. USDA administers the program for 3 rural EZ's (which get access to \$40 million each in Social Service Block Grants (SSBG), including substantial tax incentives) and 30 rural EC's (which get access to \$2.95 million each in SSBG funds). The 33 rural EZ/EC's were designated in December 1994, and began receiving financial assistance in 1995 (fig. 2). By 1996, all 33 had begun to draw on the SSBG funds that automatically came with their designation, and by the end of the year, they had drawn down \$34 million of their 10-year, \$208.5 million in SSBG allocations. More is expected to be spent in 1997 and in future years. These communities are also receiving increasing amounts of other assistance. For example, the recently enacted work opportunity tax credit provides incentives for EZ/EC employers to hire zone residents (see article on tax changes). Several programs also have congressionally earmarked funds for EZ/EC's. Rural EZ/EC's got \$54 million in earmarked USDA funds for infrastructure and business assistance in 1996, and \$52 million in 1997. Many other Federal programs give EZ/EC's priority points in competing for funds. In the next few years (EZ/EC's designations last for 10 years), these communities are expected to apply for and receive increasing amounts of assistance, enabling them to implement their comprehensive development strategies.

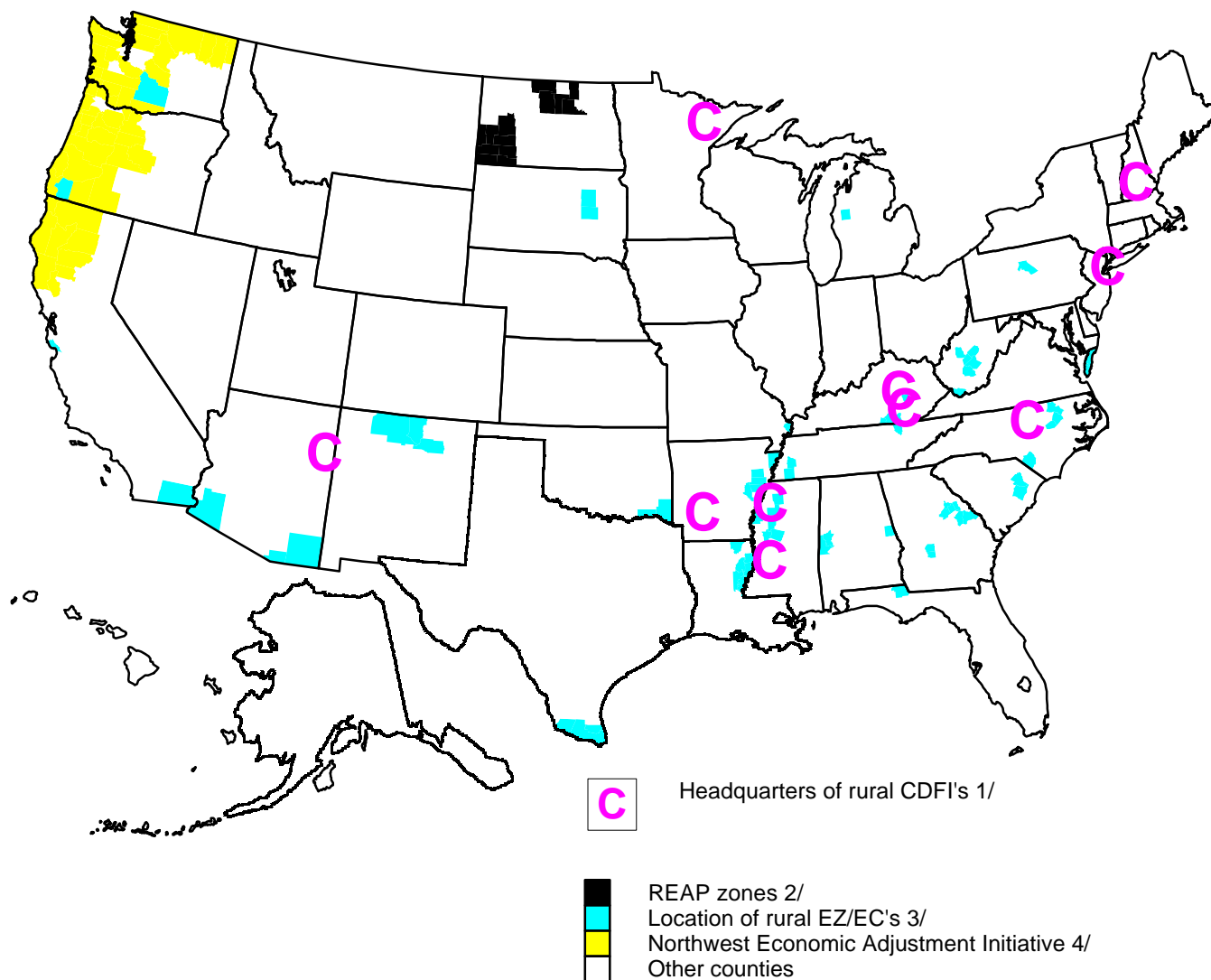
Similar to the EZ/EC program, the new Rural Economic Area Partnership (REAP) initiative assists rural places in the Northern Great Plains that are trying to diversify their economies to adjust to long-term outmigration and employment and population decline. Two multicounty REAP zones in North Dakota were designated by USDA (fig. 2). With USDA assistance, each developed a strategic plan in 1995, received \$50,000 to implement a revolving loan fund, and has a USDA set-aside of \$10 million in rural development program funding over the next 5 years to implement its plans.

The Northwest Economic Adjustment Initiative committed \$1.2 billion over 5 years, beginning in 1994, to assist businesses, workers, tribes, and communities hurt by reduced Federal timber harvests in California, Oregon, and Washington (fig. 2). Rural areas are the primary beneficiaries: only a few metro counties in the affected region receive assistance. Financial and technical assistance comes from various Federal agencies (USDA, Labor, EDA, EPA, HUD, Interior), allowing a comprehensive approach to revitalization, coordinated with State and local efforts. Funding for the initiative began at \$248 million in 1994, peaked at \$268 million in 1995, dropped to \$260 million in 1996, and is expected to decline slightly to \$243 million in 1997. Much of this money comes from existing programs that are giving more priority to these places than before, such as the USDA Forest Service's \$17 million in specially appropriated economic action funds in 1997.

Figure 2

Important new initiatives providing general assistance

Community Development Financial Institutions and Empowerment Zones/Enterprise Communities often work together



1/ Community Development Financial Institutions serving predominantly rural areas.

2/ Rural Economic Area Partnership.

3/ Empowerment Zones and Enterprise Communities in rural areas.

4/ Josephine County in Oregon is both an EZ/EC and a Northwest Initiative recipient.

Source: Calculated by ERS using data from USDA and Treasury Department.

The Community Development Financial Institutions (CDFI) initiative revitalizes distressed communities by enhancing the ability of selected financial organizations to extend credit and provide technical assistance to promote community development. CDFI's provide a wide range of financial products and services, including mortgage financing to first-time homebuyers, rental housing rehabilitation, startup business loans, and basic retail/consumer financial services for low-income residents. In July 1996, the newly created Federal CDFI Fund selected 32 financial organizations from 268 applicants to receive \$37 million in Federal CDFI assistance. Although their headquarters are often located in metro areas, their service areas may include rural areas and encompass multistate regions or the entire Nation. About one-quarter of these CDFI's serve predominantly rural

areas (their headquarters are shown in fig. 2), and another quarter serve a combination of rural and urban areas. They include nontraditional banks, credit unions, housing organizations, loan funds, and venture capital funds that specialize in community development. The CDFI Fund has also selected 38 traditional banks and thrifts to receive \$13 million to extend more credit and services to distressed communities and to CDFI's. The budget for the CDFI initiative was \$45 million in 1996 and \$50 million in 1997. In the next several years, these funds are expected to leverage 3 to 4 times this amount in private capital, and much more capital over the long run.

Another initiative that provides general assistance is the National Rural Development Partnership. Beginning in 1990, this initiative was designed to strengthen the delivery of Federal support for rural development through the creation of State Rural Development Councils (SRDC's) in individual States. SRDC's represent a partnership of Federal, State, local, tribal, and private sectors. These councils meet periodically to help coordinate rural development strategies, develop new and innovative intergovernmental approaches, and resolve intergovernmental conflicts. As of 1996, 39 States had SRDC's. The National Rural Development Council, representing about 60 Federal agencies and representatives of public and private sector organizations, helps to coordinate participating Federal agencies and create teams of task forces to help focus Partnership efforts. Funding is difficult to project because it depends on contributions from various agencies. *[Rick Reeder, 202-219-0551, rreeder@econ.ag.gov]*